

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-34 - BIG BEAR**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts**  
**County Service Area No. 70**  
**Zone R-34 - Big Bear**  
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**ROGERS, ANDERSON, MALODY & SCOTT, LLP**

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-34 - Big Bear

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone R-34 - Big Bear (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone R-34 - Big Bear, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-34 - Big Bear has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 11,978
Interest receivable	67
Capital assets, net of depreciation	<u>34,721</u>
Total Assets	<u>46,766</u>

**LIABILITIES**

Due to other governments	<u>64</u>
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**NET ASSETS**

Invested in capital assets	34,721
Unrestricted	<u>11,981</u>
Total Net Assets	<u><u>\$ 46,702</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 1,863
Services and supplies	4,317
Depreciation	1,197
Total Program Expenses	<u>7,377</u>

**PROGRAM REVENUES**

Charges for services	2,801
Net Program Expense	<u>(4,576)</u>

**GENERAL REVENUES**

Property taxes	67
Investment earnings	403
Total General Revenues	<u>470</u>

Change in Net Assets	(4,106)
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Net Assets - beginning	<u>50,808</u>
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Net Assets - ending	<u><u>\$ 46,702</u></u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	<b>SPECIAL REVENUE FUND</b> <hr/> <b>General (RCM)</b> <hr/>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 11,978
Interest receivable	67
	<hr/>
Total Assets	\$ 12,045
	<hr/>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Due to other governments	\$ 64
	<hr/>
Fund Balances:	
Unreserved:	
Undesignated	11,981
	<hr/>
Total Fund Balances	11,981
	<hr/>
Total Liabilities and Fund Balances	\$ 12,045
	<hr/>
<b>Total fund balances - governmental fund</b>	\$ 11,981
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	34,721
	<hr/>
Net assets of governmental fund	\$ 46,702
	<hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND
	General (RCM)
<b>REVENUES</b>	
Property taxes	\$ 67
Special assessments	2,801
Investment earnings	403
Total Revenues	<u>3,271</u>
<b>EXPENDITURES</b>	
Salaries and benefits	1,863
Services and supplies	<u>4,317</u>
Total Expenditures	<u>6,180</u>
Net Change in Fund Balances	(2,909)
Fund Balances - beginning	<u>14,890</u>
Fund Balances - ending	<u><u>\$ 11,981</u></u>

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Fund to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$	(2,909)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

(1,197)

Change in net assets of governmental activities	\$	(4,106)
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(4,106)

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-34 - Big Bear  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 - Zone R-34 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1,000 feet of unpaved road on Alley Way in the community of Big Bear.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone R-34 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Infrastructure	\$ 47,890	\$ -	\$ -	\$ 47,890
Total capital assets, being depreciated	47,890	-	-	47,890
Less accumulated depreciation for:				
Infrastructure	(11,972)	(1,197)	-	(13,169)
Total accumulated depreciation	(11,972)	(1,197)	-	(13,169)
Total capital assets, being depreciated, net	\$ 35,918	\$ (1,197)	\$ -	\$ 34,721

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-34 - Big Bear  
Notes to Financial Statements  
June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-34 - Big Bear**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (RCM)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 67	\$ 67
Special assessments	2,700	2,700	2,801	101
Investment earnings	500	500	403	(97)
Total Revenues	3,200	3,200	3,271	71
<b>EXPENDITURES</b>				
Salaries and benefits	1,863	1,863	1,863	-
Services and supplies	4,134	4,938	4,317	621
Reserves and contingencies	1,204	1,204	-	1,204
Total Expenditures	7,201	8,005	6,180	1,825
Excess of Revenues Over (Under) Expenditures	(4,001)	(4,805)	(2,909)	1,896
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	-	-	-	-
Transfer out	(10,889)	(10,085)	-	10,085
Total Other Financing Sources (Uses)	(10,889)	(10,085)	-	10,085
Net Change in Fund Balances	\$ (14,890)	\$ (14,890)	(2,909)	\$ 11,981
Fund Balances - beginning			14,890	
Fund Balances - ending			\$ 11,981	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-35 - CEDAR GLEN**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone R-35 - Cedar Glen  
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ROBERT B. MEMORY, C.P.A.  
PHILLIP H. WALLER, C.P.A.  
BRENDA L. ODLE, C.P.A.  
TERRY P. SHEA, C.P.A.  
KIRK A. FRANKS, C.P.A.

CYNTHIA L. SAKS, C.P.A.  
LEENA SHANBHAG, C.P.A.  
NANCY O'RAFFERTY, C.P.A.  
KATHLEEN L. DEVALK, C.P.A.  
LAURIE K. MARSCHER, C.P.A.  
THOMAS T. PRILL, C.P.A.  
JENNIFER L. STARBUCK, C.P.A.  
JOSEPH P. WALSH, C.P.A.  
SO MAN (PEONY) CHENG, C.P.A.  
SCOTT W. MANNO, C.P.A.  
YUAN (PATRICIA) SONG, C.P.A.  
JANET M. VRYHEID, C.P.A.

Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-35 - Cedar Glen

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone R-35 - Cedar Glen (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone R-35 - Cedar Glen, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-35 - Cedar Glen has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-35 - Cedar Glen**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 11,599
Interest receivable	65
Capital assets, net of depreciation	<u>36,639</u>
Total Assets	<u>48,303</u>

**LIABILITIES**

Due to other governments	<u>64</u>
--------------------------	-----------

**NET ASSETS**

Invested in capital assets	36,639
Unrestricted	<u>11,600</u>
Total Net Assets	<u><u>\$ 48,239</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-35 - Cedar Glen**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 2,242
Services and supplies	1,524
Depreciation	869
Total Program Expenses	<u>4,635</u>

**PROGRAM REVENUES**

Charges for services	<u>5,604</u>
Net Program Revenue	<u>969</u>

**GENERAL REVENUES**

Property taxes	2,587
Investment earnings	438
Total General Revenues	<u>3,025</u>

Change in Net Assets	3,994
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<b>Net Assets - beginning</b>	<u>44,245</u>
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<b>Net Assets - ending</b>	<u><u>\$ 48,239</u></u>
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The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-35 - Cedar Glen  
Balance Sheet  
Governmental Funds  
June 30, 2003**

	SPECIAL REVENUE FUND General (RCQ)	CAPITAL PROJECTS FUND Chip/Slurry (CNU)	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 11,595	\$ 4	\$ 11,599
Interest receivable	65	-	65
Total Assets	<u>\$ 11,660</u>	<u>\$ 4</u>	<u>\$ 11,664</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Due to other governments	\$ 64	-	\$ 64
Total Liabilities	<u>64</u>	<u>-</u>	<u>64</u>
Fund Balances:			
Unreserved:			
Undesignated	<u>11,596</u>	<u>4</u>	<u>11,600</u>
Total Fund Balances	<u>11,596</u>	<u>4</u>	<u>11,600</u>
Total Liabilities and Fund Balances	<u>\$ 11,660</u>	<u>\$ 4</u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Net assets of governmental funds

36,639

\$ 48,239

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-35 - Cedar Glen**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND General (RCQ)	CAPITAL PROJECTS FUND Chip/Slurry (CNU)	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 2,587	\$ -	\$ 2,587
Special assessments	5,604	-	5,604
Investment earnings	429	9	438
Total Revenues	8,620	9	8,629
<b>EXPENDITURES</b>			
Salaries and benefits	2,242	-	2,242
Services and supplies	1,524	-	1,524
Capital outlay:			
Land improvements	-	11,427	11,427
Total Expenditures	3,766	11,427	15,193
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,854	(11,418)	(6,564)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	-	11,422	11,422
Transfer out	(11,422)	-	(11,422)
Total Other Financing Sources (Uses)	(11,422)	11,422	-
Net Change in Fund Balances	(6,568)	4	(6,564)
Fund Balances - beginning	18,164	-	18,164
Fund Balances - ending	\$ 11,596	\$ 4	\$ 11,600

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-35 - Cedar Glen**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds	\$	(6,564)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

10,558

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Change in net assets of governmental activities	\$	3,994
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3,994

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-35 - Cedar Glen  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 - Zone R-35 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1,300 feet of paved roads.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone R-35 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-35 - Cedar Glen**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* labeled "Chip/Slurry" is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-35 - Cedar Glen  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-35 - Cedar Glen**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Reconciliation of government-wide and fund financial statements**

**Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$10,558 difference are as follows:

Capital outlay	\$ 11,427
Depreciation expense	<u>(869)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 10,558</u>

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-35 - Cedar Glen  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-35 - Cedar Glen**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 11,427	\$ -	\$ 11,427
Total capital assets, not being depreciated	-	11,427	-	11,427
Capital assets, being depreciated:				
Infrastructure	34,774	-	-	34,774
Total capital assets, being depreciated	34,774	-	-	34,774
Less accumulated depreciation for:				
Infrastructure	(8,693)	(869)	-	(9,562)
Total accumulated depreciation	(8,693)	(869)	-	(9,562)
Total capital assets, being depreciated, net	26,081	(869)	-	25,212
Governmental activities capital assets, net	\$ 26,081	\$ 10,558	\$ -	\$ 36,639

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-35 - Cedar Glen**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-35 - Cedar Glen**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-35 - Cedar Glen**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-35 - Cedar Glen**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (RCQ)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 2,587	\$ 2,587
Special assessments	2,600	2,600	5,604	3,004
Investment earnings	300	300	429	129
 Total Revenues	 2,900	 2,900	 8,620	 5,720
<b>EXPENDITURES</b>				
Salaries and benefits	2,242	2,242	2,242	-
Services and supplies	6,643	3,643	1,524	2,119
Reserves and contingencies	1,179	1,179	-	1,179
 Total Expenditures	 10,064	 7,064	 3,766	 3,298
 Excess of Revenues Over (Under) Expenditures	 (7,164)	 (4,164)	 4,854	 9,018
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out	(11,000)	(14,000)	(11,422)	2,578
 Total Other Financing Sources (Uses)	 (11,000)	 (14,000)	 (11,422)	 2,578
 Net Change in Fund Balances	 <u>\$ (18,164)</u>	 <u>\$ (18,164)</u>	 (6,568)	 <u>\$ 11,596</u>
 Fund Balances - beginning			 18,164	
 Fund Balances - ending			\$ 11,596	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-36 - PAN SPRINGS**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone R-36 - Pan Springs  
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**ROGERS, ANDERSON, MALODY & SCOTT, LLP**

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-36 - Pan Springs

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone R-36 - Pan Springs (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone R-36 - Pan Springs, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**MEMBERS**

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-36 - Pan Springs has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-36 - Pan Springs**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 90,883
Interest receivable	491
Capital assets, net of depreciation	<u>151,711</u>
Total Assets	<u>243,085</u>

**LIABILITIES**

Due to other governments	<u>637</u>
--------------------------	------------

**NET ASSETS**

Invested in capital assets	151,711
Unrestricted	<u>90,737</u>
Total Net Assets	<u><u>\$ 242,448</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-36 - Pan Springs**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 3,321
Services and supplies	4,316
Depreciation	5,057
Total Program Expenses	<u>12,694</u>

**PROGRAM REVENUES**

Charges for services	<u>12,629</u>
Net Program Expense	<u>(65)</u>

**GENERAL REVENUES**

Property taxes	828
Investment earnings	2,600
Total General Revenues	<u>3,428</u>

Change in Net Assets	3,363
----------------------	-------

Net Assets - beginning	<u>239,085</u>
------------------------	----------------

Net Assets - ending	<u><u>\$ 242,448</u></u>
---------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-36 - Pan Springs**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	SPECIAL REVENUE FUND
	General (RCR)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 90,883
Interest receivable	491
Total Assets	<u>\$ 91,374</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Due to other governments	<u>\$ 637</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>90,737</u>
Total Fund Balances	<u>90,737</u>
Total Liabilities and Fund Balances	<u>\$ 91,374</u>
<b>Total fund balances - governmental fund</b>	<b>\$ 90,737</b>
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>151,711</u>
Net assets of governmental fund	<u>\$ 242,448</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-36 - Pan Springs**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND General (RCR)
<b>REVENUES</b>	
Property taxes	\$ 828
Special assessments	12,629
Investment earnings	2,600
Total Revenues	<u>16,057</u>
<b>EXPENDITURES</b>	
Salaries and benefits	3,321
Services and supplies	4,316
Total Expenditures	<u>7,637</u>
Net Change in Fund Balances	8,420
Fund Balances - beginning	<u>82,317</u>
Fund Balances - ending	<u><u>\$ 90,737</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-36 - Pan Springs**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Fund to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$	8,420
---	----	-------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

(5,057)

Change in net assets of governmental activities	\$	3,363
---	----	-------

3,363

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-36 - Pan Springs  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 - Zone R-36 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1 mile of paved road.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone R-36 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-36 - Pan Springs  
Notes to Financial Statements  
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-36 - Pan Springs**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-36 - Pan Springs  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-36 - Pan Springs**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Infrastructure	\$ 202,281	\$ -	\$ -	\$ 202,281
Total capital assets, being depreciated	202,281	-	-	202,281
Less accumulated depreciation for:				
Infrastructure	(45,513)	(5,057)	-	(50,570)
Total accumulated depreciation	(45,513)	(5,057)	-	(50,570)
Total Capital assets, being depreciated, net	<u>\$ 156,768</u>	<u>\$ (5,057)</u>	<u>\$ -</u>	<u>\$ 151,711</u>

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-36 - Pan Springs**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-36 - Pan Springs**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-36 - Pan Springs  
Notes to Financial Statements  
June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-36 - Pan Springs**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (RCR)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 828	\$ 828
Special assessments	9,500	9,500	12,629	3,129
Investment earnings	1,000	1,000	2,600	1,600
 Total Revenues	 10,500	 10,500	 16,057	 5,557
<b>EXPENDITURES</b>				
Salaries and benefits	3,321	3,321	3,321	-
Services and supplies	16,502	16,502	4,316	12,186
Reserves and contingencies	22,995	22,995	-	22,995
 Total Expenditures	 42,818	 42,818	 7,637	 35,181
 Excess of Revenues Over (Under) Expenditures	 (32,318)	 (32,318)	 8,420	 40,738
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out	(50,000)	(50,000)	-	50,000
 Total Other Financing Sources (Uses)	 (50,000)	 (50,000)	 -	 50,000
 Net Change in Fund Balances	 \$ (82,318)	 \$ (82,318)	 8,420	 \$ 90,738
 <b>Fund Balances - beginning</b>			 82,317	
 <b>Fund Balances - ending</b>			 \$ 90,737	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-37 - CHINO (ROAD)**

**REPORT ON AUDIT**

**JUNE 30, 2003**



County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-37  
Chino (Road)  
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## ROGERS, ANDERSON, MALODY & SCOTT, LLP

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-37 - Chino (Road)

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone R-37 - Chino (Road) (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone R-37 - Chino (Road), as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-37 - Chino (Road) has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-37 - Chino (Road)**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 11,876
Interest receivable	<u>67</u>

Total Assets	<u>11,943</u>
--------------	---------------

**LIABILITIES AND FUND BALANCES****Liabilities:**

Due to other governments	<u>64</u>
--------------------------	-----------

**NET ASSETS**

Unrestricted	<u>11,879</u>
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Total Net Assets	<u><u>\$ 11,879</u></u>
------------------	-------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-37 - Chino (Road)**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Services and supplies	\$ 312
Total Program Expenses	<u>312</u>

**PROGRAM REVENUES**

Charges for services	<u>-</u>
Net Program Expense	<u>(312)</u>

**GENERAL REVENUES**

Investment earnings	<u>384</u>
Total General Revenues	<u>384</u>

Change in Net Assets	72
----------------------	----

Net Assets - beginning	<u>11,807</u>
------------------------	---------------

Net Assets - ending	<u><u>\$ 11,879</u></u>
---------------------	-------------------------

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-37 - Chino (Road)  
Balance Sheet  
Governmental Fund  
June 30, 2003

	SPECIAL REVENUE FUND
	General (RCV)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 11,876
Interest receivable	67
Total Assets	<u>\$ 11,943</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Due to other governments	\$ 64
Total Liabilities	<u>64</u>
Fund Balances:	
Unreserved:	
Undesignated	<u>11,879</u>
Total Fund Balances	<u>11,879</u>
Total Liabilities and Fund Balances	<u>\$ 11,943</u>
<b>Total fund balances - governmental fund</b>	<b>\$ 11,879</b>
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
None	<u>-</u>
Net assets of governmental fund	<u>\$ 11,879</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-37 - Chino (Road)**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND
	General (RCV)
<b>REVENUES</b>	
Investment earnings	\$ 384
Total Revenues	384
<b>EXPENDITURES</b>	
Services and supplies	312
Total Expenditures	312
Net Change in Fund Balances	72
Fund Balances - beginning	11,807
Fund Balances - ending	\$ 11,879

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-37 - Chino (Road)  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Fund to the  
Statement of Activities  
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$ 72
---	-------

Amounts reported for governmental activities in the statement of activities  
are different because:

None

-

Change in net assets of governmental activities

\$ 72

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-37 - Chino (Road)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 - Zone R-37 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 1 mile of paved road.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone R-37 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-37 - Chino (Road)**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-37 - Chino (Road)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-37 - Chino (Road)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capital assets.

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-37 - Chino (Road)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-37 - Chino (Road)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 3: RETIREMENT PLAN (continued)**

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 4: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 5: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-37 - Chino (Road)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: RISK MANAGEMENT (continued)**

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 6: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-37 - Chino (Road)**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (RCV)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Investment earnings	\$ -	\$ -	\$ 384	\$ 384
Total Revenues	-	-	384	384
<b>EXPENDITURES</b>				
Services and supplies	11,807	11,807	312	11,495
Total Expenditures	11,807	11,807	312	11,495
Net Change in Fund Balances	\$ (11,807)	\$ (11,807)	72	\$ 11,879
Fund Balances - beginning			11,807	
Fund Balances - ending			\$ 11,879	



**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE R-39 - HIGHLAND ESTATES (PHELAN)**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone R-39  
Highland Estates (Phelan)  
Table of Contents**

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone R-39 - Highland Estates (Phelan)

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan) (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan), as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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The County of San Bernardino Special District County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan) has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 39,843
Interest receivable	214
Capital assets, net of depreciation	<u>29,109</u>
Total Assets	<u>69,166</u>

**LIABILITIES**

Due to other governments	<u>255</u>
--------------------------	------------

**NET ASSETS**

Invested in capital assets	29,109
Unrestricted	<u>39,802</u>
Total Net Assets	<u>\$ 68,911</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 9,381
Services and supplies	8,603
Total Program Expenses	<u>17,984</u>

**PROGRAM REVENUES**

Charges for services	<u>42,522</u>
Net Program Revenue	<u>24,538</u>

**GENERAL REVENUES**

Investment earnings	1,226
Other	<u>127</u>
Total General Revenues	<u>1,353</u>

Change in Net Assets	25,891
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Net Assets - beginning	<u>43,020</u>
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Net Assets - ending	<u><u>\$ 68,911</u></u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2003**

	SPECIAL REVENUE FUND <u>General (RCK)</u>	CAPITAL PROJECTS FUND <u>Paving (CSR)</u>	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 33,947	\$ 5,896	\$ 39,843
Interest receivable	196	18	214
<b>Total Assets</b>	<u>\$ 34,143</u>	<u>\$ 5,914</u>	<u>\$ 40,057</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Due to other governments	\$ 255	\$ -	\$ 255
<b>Total Liabilities</b>	<u>255</u>	<u>-</u>	<u>255</u>
<b>Fund Balances:</b>			
Unreserved:			
Undesignated	33,888	5,914	39,802
<b>Total Fund Balances</b>	<u>33,888</u>	<u>5,914</u>	<u>39,802</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 34,143</u>	<u>\$ 5,914</u>	

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

	<u>29,109</u>
Net assets of governmental funds	<u>\$ 68,911</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND General (RCK)	CAPITAL PROJECTS FUND Paving (CSR)	Total Governmental Funds
<b>REVENUES</b>			
Special assessments	\$ 42,522	\$ -	\$ 42,522
Investment earnings	1,203	23	1,226
Other	127	-	127
Total Revenues	<u>43,852</u>	<u>23</u>	<u>43,875</u>
<b>EXPENDITURES</b>			
Salaries and benefits	9,381	-	9,381
Services and supplies	8,603	-	8,603
Capital outlay:			
Land improvements	-	29,109	29,109
Total Expenditures	<u>17,984</u>	<u>29,109</u>	<u>47,093</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>25,868</u>	<u>(29,086)</u>	<u>(3,218)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	-	35,000	35,000
Transfer out	(35,000)	-	(35,000)
Total Other Financing Sources (Uses)	<u>(35,000)</u>	<u>35,000</u>	<u>-</u>
Net Change in Fund Balances	(9,132)	5,914	(3,218)
Fund Balances - beginning	<u>43,020</u>	<u>-</u>	<u>43,020</u>
Fund Balances - ending	<u>\$ 33,888</u>	<u>\$ 5,914</u>	<u>\$ 39,802</u>

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds	\$	(3,218)
--	----	---------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

29,109

Change in net assets of governmental activities

\$ 25,891

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 - Zone R-39 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to maintain 3.3 miles of paved road.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone R-39 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* labeled "Paving" is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Infrastructure	\$ -	\$ 29,109	\$ -	\$ 29,109
Total capital assets, being depreciated	-	29,109	-	29,109
Less accumulated depreciation for:				
Infrastructure	-	-	-	-
Total accumulated depreciation	-	-	-	-
Total Capital assets, being depreciated, net	\$ -	\$ 29,109	\$ -	\$ 29,109

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>End of Fiscal Year Liability (in thousands)</b>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone R-39 - Highland Estates (Phelan)**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (RCK)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Special assessments	\$ 40,000	\$ 40,000	\$ 42,522	\$ 2,522
Investment earnings	300	300	1,203	903
Other	-	-	127	127
 Total Revenues	 40,300	 40,300	 43,852	 3,552
<b>EXPENDITURES</b>				
Salaries and benefits	9,381	9,381	9,381	-
Services and supplies	33,269	33,269	8,603	24,666
Reserves and contingencies	5,670	5,670	-	5,670
 Total Expenditures	 48,320	 48,320	 17,984	 30,336
 Excess of Revenues Over (Under) Expenditures	 (8,020)	 (8,020)	 25,868	 33,888
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out	(35,000)	(35,000)	(35,000)	-
 Total Other Financing Sources (Uses)	 (35,000)	 (35,000)	 (35,000)	 -
 Net Change in Fund Balances	 <u>\$ (43,020)</u>	 <u>\$ (43,020)</u>	 (9,132)	 <u>\$ 33,888</u>
 Fund Balances - beginning			 43,020	
 Fund Balances - ending			 \$ 33,888	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE S-3**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone S-3  
Table of Contents**

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## ROGERS, ANDERSON, MALODY & SCOTT, LLP

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone S-3

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone S-3 (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone S-3, as of June 30, 2003, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The County of San Bernardino Special District County Service Area No. 70 - Zone S-3 has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

#### MEMBERS

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CALIFORNIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

County of San Bernardino Special Districts  
County Service Area No. 70 - Zone S-3  
Statement of Net Assets  
June 30, 2003

**ASSETS**

## Current Assets:

Cash and cash equivalents	\$ 669,505
Accounts receivable, net	67,666
Interest receivable	3,563
Taxes receivable	1,413
Total Current Assets	<u>742,147</u>

## Noncurrent Assets:

## Capital Assets:

Utility Plant in-service	3,394,459
Structures and improvements to structures	290,374
Vehicles	23,191
Equipment	49,682
Accumulated depreciation	<u>(1,832,833)</u>
Total Noncurrent Assets	<u>1,924,873</u>

Total Assets	<u>2,667,020</u>
--------------	------------------

**LIABILITIES****NET ASSETS**

Invested in capital assets	1,924,873
Unrestricted	<u>742,147</u>
Total Net Assets	<u>\$ 2,667,020</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-3**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2003**

**OPERATING REVENUES**

Sanitation services	\$ 316,580
Connection fees	16,004
Permits and inspection	876
Other services	600
Total Operating Revenues	<u>334,060</u>

**OPERATING EXPENSES**

Professional services	20,758
Salaries and benefits	163,413
Services and supplies	80,353
Utilities	19,605
Depreciation	93,127
Total Operating Expenses	<u>377,256</u>

Operating (Loss)	<u>(43,196)</u>
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**NONOPERATING REVENUES (EXPENSES)**

Investment earnings	19,511
Property taxes	2,530
Special assessments	20,227
Penalties	3,017
Other	865
Total Nonoperating Revenues	<u>46,150</u>

Income Before Contributions	2,954
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Capital contributions	<u>8,313</u>
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Change in Net Assets	11,267
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Net Assets - beginning	<u>2,655,753</u>
------------------------	------------------

Net Assets - ending	<u><u>\$ 2,667,020</u></u>
---------------------	----------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone S-3  
Statement of Cash Flows  
For the Year Ended June 30, 2003**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 327,083
Payments to suppliers	(120,716)
Payments to employees	(163,413)
Net Cash Provided by Operating Activities	<u>42,954</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Property taxes	2,009
Special assessments	20,227
Penalties	3,017
Other nonoperating revenues	865
Net Cash Provided by Noncapital Financing Activities	<u>26,118</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of capital assets	(14,385)
Net Cash (Used For) Capital and Related Financing Activities	<u>(14,385)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment earnings	21,820
Net Cash Provided by Investing Activities	<u>21,820</u>

Net increase in cash and cash equivalents 76,507

Cash and Cash Equivalents - beginning of the year 592,998

Cash and Cash Equivalents - end of the year \$ 669,505

Reconciliation of operating (loss) to net cash provided by operating activities:

Operating (loss)	\$ (43,196)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Depreciation expense	93,127
Change in assets and liabilities:	
Increase in accounts receivable, net	(7,318)
Decrease in due from other governments	341

Net Cash Provided by Operating Activities \$ 42,954

The accompanying notes are an integral part of these financial statements.



County of San Bernardino Special Districts  
County Service Area No. 70 - Zone S-3  
Statement of Fiduciary Net Assets  
Fiduciary Fund  
For the Year Ended June 30, 2003

**ASSETS**

Cash and cash equivalent	\$ 18,098
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Total Assets	\$ 18,098
--------------	-----------

**LIABILITIES**

Due to bondholders	\$ 18,098
--------------------	-----------

Total Liabilities	\$ 18,098
-------------------	-----------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-3**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting entity**

The County Service Area (CSA) No. 70 - Zone S-3 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to provide sanitation services to residents in the Lytle Creek Community and the U.S. Forest Service. The CSA 70 - Zone S-3 currently provides service to 798 Equivalent Dwelling Units (EDUs).

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 - Zone S-3 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Measurement focus, basis of accounting, and financial statement presentation**

The CSA's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-3**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-3**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Capital assets**

Capital assets, which include property, plant and equipment are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

Although the District prepares and adopts an annual budget, budgetary information is not presented because the District is not legally required to adopt a budget.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-3**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 3: ACCOUNTS RECEIVABLE**

At June 30, 2003, the accounts receivable were composed for the following:

Accounts receivable	\$ 76,893
Less: Allowance for Uncollectibles	<u>(9,227)</u>
Total Accounts Receivable, net	<u>\$ 67,666</u>

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets:				
Utility plant in-service	\$ 3,394,459	\$ -	\$ -	\$ 3,394,459
Structures and improvements to structures	290,374	-	-	290,374
Vehicles	8,806	14,385	-	23,191
Equipment	30,252	19,430	-	49,682
Total capital assets	<u>3,723,891</u>	<u>33,815</u>	<u>-</u>	<u>3,757,706</u>
Less accumulated depreciation for:				
Utility plant in-service	(1,574,523)	(84,796)	-	(1,659,319)
Structures and improvements to structures	(115,008)	(6,453)	-	(121,461)
Vehicles	(8,806)	(799)	-	(9,605)
Equipment	(30,252)	(12,196)	-	(42,448)
Total accumulated depreciation	<u>(1,728,589)</u>	<u>(104,244)</u>	<u>-</u>	<u>(1,832,833)</u>
Total capital assets, net	<u>\$ 1,995,302</u>	<u>\$ (70,429)</u>	<u>\$ -</u>	<u>\$ 1,924,873</u>

\* The amount includes current year depreciation expense of \$93,127 and \$11,117 for accumulated depreciation as of August 31, 2002 for equipment with a cost of \$19,430 that was transferred to the CSA in the current year.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-3**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: REFUNDING OF 1915 ACT BONDS**

On June 30, 1994, the County's Assessment District 94-2 issued a Limited Obligation Refunding Bond (the Assessment Bond) under the provisions of the Refunding Act of 1984 for 1915 Improvement Act Bonds for the purpose of refunding eleven prior series of assessment district bonds of the County. The prior series assessment bonds of Assessment District No. 82-1 amounting to \$345,000 were refunded. The Assessment Bond is payable from reassessment payments, collected on assessed parcels within Assessment District 94-2, of which Assessment District No. 82-1 is a subarea. Exhibit D shows the cash and cash equivalents in Assessment District No. 82-1 reserve funds at June 30, 2003.

The CSA has no obligation to advance funds to pay debt services on the Assessment Bond in the event collections are insufficient. However, the CSA may, at its option and in its sole discretion, elect to advance available surplus funds of the CSA in the amount of any delinquent payments to pay debt service on the Assessment Bond.

**NOTE 6: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone S-3  
Notes to Financial Statements  
June 30, 2003**

**NOTE 6: RETIREMENT PLAN (continued)**

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<b>Year Ended June 30,</b>	<b>Annual Pension Cost (in thousands)</b>	<b>Percentage Contributed</b>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 7: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-3**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 8: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone S-3**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 8: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 9: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 10: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE SP-2 - HIGH COUNTRY**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone SP-2 - High Country  
Table of Contents**

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BASIC FINANCIAL STATEMENTS		
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Statement of Revenues, Expenses and Changes in Net Assets	B	3
Statement of Cash Flows	C	4
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## ROGERS, ANDERSON, MALODY & SCOTT, LLP

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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone SP-2 - High Country

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 - Zone SP-2 - High Country (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 - Zone SP-2 - High Country, as of June 30, 2003, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The County of San Bernardino Special District County Service Area No. 70 - Zone SP-2 - High Country has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

#### MEMBERS

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**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone SP-2 - High Country**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 25,405
Accounts receivable	19,173
Interest receivable	<u>91</u>
Total Assets	<u>44,669</u>

**LIABILITIES**

Accounts payable	<u>13,309</u>
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**NET ASSETS**

Unrestricted	<u>31,360</u>
Total Net Assets	<u>\$ 31,360</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone SP-2 - High Country  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended June 30, 2003**

**OPERATING REVENUES**

Sanitation services	\$ 76,224
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Total Operating Revenues	<u>76,224</u>
--------------------------	---------------

**OPERATING EXPENSES**

Professional services	35,887
-----------------------	--------

Salaries and benefits	29,818
-----------------------	--------

Services and supplies	<u>13,959</u>
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Total Operating Expenses	<u>79,664</u>
--------------------------	---------------

Operating (Loss)	<u>(3,440)</u>
------------------	----------------

**NONOPERATING REVENUES (EXPENSES)**

Investment earnings	548
---------------------	-----

Penalties	<u>1,340</u>
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Total Nonoperating Revenues	<u>1,888</u>
-----------------------------	--------------

Change in Net Assets	(1,552)
----------------------	---------

Net Assets - beginning	<u>32,912</u>
------------------------	---------------

Net Assets - ending	<u><u>\$ 31,360</u></u>
---------------------	-------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone SP-2 - High Country**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2003**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 74,251
Payments to suppliers	(46,326)
Payments to employees	<u>(29,818)</u>
Net Cash (Used For) Operating Activities	<u>(1,893)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Penalties	<u>1,340</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,340</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment earnings	<u>717</u>
Net Cash Provided By Investing Activities	<u>717</u>
Net Increase in Cash and Cash Equivalents	164

Cash and Cash Equivalents - beginning of the year	<u>25,241</u>
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Cash and Cash Equivalents - end of the year	<u><u>\$ 25,405</u></u>
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**Reconciliation of operating income (loss) to net cash (used for)**  
**operating activities:**

Operating income (loss)	\$ (3,440)
Adjustments to reconcile operating income (loss) to net cash (used for) operating activities:	
Change in assets and liabilities:	
Increase in accounts receivable	(1,973)
Increase in accounts payable	<u>3,520</u>

Net Cash (Used For) Operating Activities	<u><u>\$ (1,893)</u></u>
--	--------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone SP-2 - High Country  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 - Zone SP-2, was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to service a sewer collection system to 250 Equivalent Dwelling Units (EDUs) in the High Country Development tract of homes. The CSA also provides sanitation service to a portion of CSA 70 - Zone J.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone SP-2 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Measurement focus, basis of accounting, and financial statement presentation**

The CSA's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone SP-2 - High Country**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All accounts receivable are shown net of an allowance for uncollectibles when applicable. The accounts receivable balance at June 30, 2003 is net of an allowance for doubtful accounts of \$478.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Capital assets**

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone SP-2 - High Country**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Currently, the CSA does not have any capital assets.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

Although the District prepares and adopts an annual budget, budgetary information is not presented because the District is not legally required to adopt a budget.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: ACCOUNTS RECEIVABLE**

At June 30, 2003, the receivables were composed of the following:

	<u>Ambulance</u>
Accounts	\$ 19,651
Less: allowance for uncollectibles	<u>(478)</u>
Net Total Accounts Receivable	<u>\$ 19,173</u>

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone SP-2 - High Country  
Notes to Financial Statements  
June 30, 2003**

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone SP-2 - High Country**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The CSA did not incur any insurance costs for annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone SP-2 - High Country**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIII B to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE TV-2 - MORONGO VALLEY**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone TV-2 - Morongo Valley  
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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 Zone TV-2 - Morongo Valley

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 Zone TV-2 - Morongo Valley (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 Zone TV-2 - Morongo Valley, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS



The County of San Bernardino Special District County Service Area No. 70 Zone TV-2 - Morongo Valley has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 44,398
Interest receivable	193
Taxes receivable	12,682
Capital assets, net of depreciation	<u>77,050</u>
Total Assets	<u>134,323</u>

**LIABILITIES**

Accounts payable	8,820
Salaries and benefits payable	<u>677</u>
Total Liabilities	<u>9,497</u>

**NET ASSETS**

Invested in capital assets	77,050
Unrestricted	<u>47,776</u>
Total Net Assets	<u>\$ 124,826</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 25,649
Services and supplies	60,075
Depreciation	<u>19,270</u>
Total Program Expenses	<u>104,994</u>

**PROGRAM REVENUES**

Charges for services	<u>3,562</u>
Net Program Expense	<u>(101,432)</u>

**GENERAL REVENUES**

Property taxes	92,364
State assistance	1,983
Investment earnings	617
Loss on sale of capital asset	<u>(2,345)</u>
Total General Revenues	<u>92,619</u>

Change in Net Assets	(8,813)
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Net Assets - beginning	<u>133,639</u>
------------------------	----------------

Net Assets - ending	<u>\$ 124,826</u>
---------------------	-------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	SPECIAL REVENUE FUND
	General (SLD)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 44,398
Interest receivable	193
Taxes receivable	5,125
	<hr/>
Total Assets	\$ 49,716
	<hr/>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 8,820
Salaries and benefits payable	677
	<hr/>
Total Liabilities	9,497
	<hr/>
Fund Balances:	
Reserved for:	
Encumbrances	3,600
Unreserved:	
Undesignated	36,619
	<hr/>
Total Fund Balances	40,219
	<hr/>
Total Liabilities and Fund Balances	\$ 49,716
	<hr/>
<b>Total fund balances - governmental fund</b>	\$ 40,219
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	77,050
	<hr/>
Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental fund.	7,557
	<hr/>
Net assets of governmental fund	\$ 124,826
	<hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	<b>SPECIAL REVENUE FUND</b> <hr/> <b>General (SLD)</b> <hr/>
<b>REVENUES</b>	
Property taxes	\$ 92,086
Special assessments	3,562
State assistance	1,983
Investment earnings	617
	<hr/>
Total Revenues	98,248
	<hr/>
<b>EXPENDITURES</b>	
Salaries and benefits	25,649
Services and supplies	51,255
Capital outlay:	
Equipment	24,935
	<hr/>
Total Expenditures	101,839
	<hr/>
Net Change in Fund Balances	(3,591)
<b>Fund Balances - beginning</b>	43,810
	<hr/>
<b>Fund Balances - ending</b>	\$ 40,219
	<hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Fund to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$	(3,591)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.		(3,155)
--	--	---------

The net effect of capital outlay transactions to decrease net asset.		
Loss on sale of capital asset		(2,345)

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental fund.		
Property tax revenue - current year		7,557
Property tax revenue - prior year		(7,279)

Change in net assets of governmental activities	\$	(8,813)
---	----	---------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting entity**

The County Service Area (CSA) No. 70 Zone TV-2 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to provide nine channels of UHF television and one channel of VHF television translator service to the 38 square miles of the Morongo Valley area.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone TV-2 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Reconciliation of government-wide and fund financial statements**

**Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(3,155) difference are as follows:

Capital outlay	\$ 16,115
Depreciation expense	<u>(19,270)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (3,155)</u>

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 2,522	\$ -	\$ -	\$ 2,522
Total capital assets, not being depreciated	2,522	-	-	2,522
Capital assets, being depreciated:				
Land improvements	68,580	-	-	68,580
Vehicles	17,693	-	-	17,693
Equipment	288,006	16,115	(103,809)	200,312
Total capital assets, being depreciated	374,279	16,115	(103,809)	286,585
Less accumulated depreciation for:				
Land improvements	(61,175)	(177)	-	(61,352)
Vehicles	(17,693)	-	-	(17,693)
Equipment	(215,383)	(19,093)	101,464	(133,012)
Total accumulated depreciation	(294,251)	(19,270)	101,464	(212,057)
Total capital assets, being depreciated, net	80,028	(3,155)	(2,345)	74,528
Governmental activities capital assets, net	\$ 82,550	\$ (3,155)	\$ (2,345)	\$ 77,050

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$765 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts  
County Service Area No. 70 Zone TV-2 - Morongo Valley  
Notes to Financial Statements  
June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-2 - Morongo Valley**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (SLD)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 93,003	\$ 93,003	\$ 92,086	\$ (917)
Special assessments	-	-	3,562	3,562
State assistance	-	-	1,983	1,983
Investment earnings	971	971	617	(354)
Total Revenues	93,974	93,974	98,248	4,274
EXPENDITURES				
Salaries and benefits	44,370	44,370	25,649	18,721
Services and supplies	52,388	52,388	51,255	1,133
Capital outlay:				
Equipment	36,000	36,000	24,935	11,065
Reserves and contingencies	1,426	1,426	-	1,426
Total Expenditures	134,184	134,184	101,839	32,345
Net Change in Fund Balances	\$ (40,210)	\$ (40,210)	(3,591)	\$ 36,619
Fund Balances - beginning			43,810	
Fund Balances - ending			\$ 40,219	



**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE TV-4 - WONDER VALLEY**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone TV-4 - Wonder Valley  
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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 Zone TV-4 - Wonder Valley

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 the TV-4 - Wonder Valley (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 Zone TV-4 - Wonder Valley, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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CERTIFIED PUBLIC ACCOUNTANTS

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The County of San Bernardino Special District County Service Area No. 70 Zone TV-4 - Wonder Valley has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-4 - Wonder Valley**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 19,851
Interest receivable	108
Taxes receivable	1,231
Capital assets, net of depreciation	<u>42,358</u>
Total Assets	<u>63,548</u>

**LIABILITIES**

Salaries and benefits payable	<u>197</u>
Total Liabilities	<u>197</u>

**NET ASSETS**

Invested in capital assets	42,358
Unrestricted	<u>20,993</u>
Total Net Assets	<u>\$ 63,351</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-4 - Wonder Valley**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 4,498
Services and supplies	2,000
Depreciation	8,859
Total Program Expenses	<u>15,357</u>

**PROGRAM REVENUES**

Charges for services	<u>21,599</u>
Net Program Revenue	<u>6,242</u>

**GENERAL REVENUES**

Property taxes	1,347
Investment earnings	<u>349</u>
Total General Revenues	<u>1,696</u>

Change in Net Assets	7,938
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Net Assets - beginning	<u>55,413</u>
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Net Assets - ending	<u>\$ 63,351</u>
---------------------	------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-4 - Wonder Valley**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	SPECIAL REVENUE FUND
	General (SLF)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 19,851
Interest receivable	108
Taxes receivable	1,231
	<hr/>
Total Assets	\$ 21,190
	<hr/>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Salaries and benefits payable	\$ 197
	<hr/>
Total Liabilities	197
	<hr/>
Fund Balances:	
Unreserved:	
Undesignated	20,993
	<hr/>
Total Fund Balances	20,993
	<hr/>
Total Liabilities and Fund Balances	\$ 21,190
	<hr/>
<b>Total fund balances - governmental fund</b>	\$ 20,993
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	42,358
	<hr/>
Net assets of governmental fund	\$ 63,351
	<hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-4 - Wonder Valley**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND
	General (SLF)
<b>REVENUES</b>	
Property taxes	\$ 1,347
Special assessments	21,599
Interest earnings	349
Total Revenues	<u>23,295</u>
<b>EXPENDITURES</b>	
Salaries and benefits	4,498
Services and supplies	<u>2,000</u>
Total Expenditures	<u>6,498</u>
Net Change in Fund Balances	16,797
Fund Balances - beginning	<u>4,196</u>
Fund Balances - ending	<u><u>\$ 20,993</u></u>

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts  
County Service Area No. 70 Zone TV-4 - Wonder Valley  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Fund to the  
Statement of Activities  
For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund	\$ 16,797
---	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

(8,859)
---------

Change in net assets of governmental activities	<u>\$ 7,938</u>
---	-----------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 Zone TV-4 - Wonder Valley  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 Zone TV-4 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to provide eight channels of UHF television translator service broadcast from Pinto Mountain, for the direct benefit of Wonder Valley.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone TV-4 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts  
County Service Area No. 70 Zone TV-4 - Wonder Valley  
Notes to Financial Statements  
June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-4 - Wonder Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-4 - Wonder Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-4 - Wonder Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, being depreciated:				
Equipment	\$ 76,405	\$ -	\$ -	\$ 76,405
Total capital assets, being depreciated	76,405	-	-	76,405
Less accumulated depreciation for:				
Equipment	(25,188)	(8,859)	-	(34,047)
Total accumulated depreciation	(25,188)	(8,859)	-	(34,047)
Total Capital assets, being depreciated, net	<u>\$ 51,217</u>	<u>\$ (8,859)</u>	<u>\$ -</u>	<u>\$ 42,358</u>

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-4 - Wonder Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<b>Year Ended June 30,</b>	<b>Annual Pension Cost (in thousands)</b>	<b>Percentage Contributed</b>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-4 - Wonder Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$201 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-4 - Wonder Valley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-4 - Wonder Valley**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (SLF)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ 21,000	\$ 21,000	\$ 1,347	\$ (19,653)
Special assessments	-	-	21,599	21,599
Interest earnings	60	60	349	289
Total Revenues	21,060	21,060	23,295	2,235
<b>EXPENDITURES</b>				
Salaries and benefits	4,703	4,703	4,498	205
Services and supplies	2,418	2,418	2,000	418
Capital outlay:				
Equipment	18,135	18,135	-	18,135
Total Expenditures	25,256	25,256	6,498	18,758
Net Change in Fund Balances	\$ (4,196)	\$ (4,196)	16,797	\$ 20,993
Fund Balances - beginning			4,196	
Fund Balances - ending			\$ 20,993	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE TV-5 - MESA TRANSLATOR**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone TV-5 - Mesa Translator  
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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 Zone TV-5 - Mesa Translator

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the County of San Bernardino Special District County Service Area No. 70 Zone TV-5 - Mesa Translator (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of San Bernardino Special District County Service Area No. 70 Zone TV-5 - Mesa Translator, as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

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PCPS THE AICPA ALLIANCE FOR CPA FIRMS

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The County of San Bernardino Special District County Service Area No. 70 Zone TV-5 - Mesa Translator has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

September 26, 2003

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Statement of Net Assets**  
**June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 49,421
Interest receivable	284
Taxes receivable	9,444
Capital assets, net of depreciation	<u>104,292</u>
Total Assets	<u>163,441</u>

**LIABILITIES**

Salaries and benefits payable	3,300
Compensated absences payable	<u>6,451</u>
Total Liabilities	<u>9,751</u>

**NET ASSETS**

Invested in capital assets	104,292
Unrestricted	<u>49,398</u>
Total Net Assets	<u><u>\$ 153,690</u></u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 118,035
Services and supplies	52,586
Depreciation	16,411
Total Program Expenses	<u>187,032</u>

**PROGRAM REVENUES**

Charges for services	<u>170,705</u>
Net Program Expense	<u>(16,327)</u>

**GENERAL REVENUES**

Property taxes	10,898
Investment earnings	1,569
Other	500
Total General Revenues	<u>12,967</u>

Change in Net Assets	(3,360)
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<b>Net Assets - beginning</b>	<u>157,050</u>
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<b>Net Assets - ending</b>	<u><u>\$ 153,690</u></u>
----------------------------	--------------------------

The accompanying notes are an integral part of these financial statements.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2003**

	SPECIAL REVENUE FUND
	General (SLE)
<b>ASSETS</b>	
Cash and cash equivalents	\$ 49,421
Interest receivable	284
Taxes receivable	9,444
	<hr/>
Total Assets	\$ 59,149
	<hr/>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Salaries and benefits payable	\$ 3,300
	<hr/>
Total Liabilities	3,300
	<hr/>
Fund Balances:	
Unreserved:	
Undesignated	55,849
	<hr/>
Total Fund Balances	55,849
	<hr/>
Total Liabilities and Fund Balances	\$ 59,149
	<hr/>
<b>Total fund balances - governmental fund</b>	\$ 55,849
Amounts reported for <i>governmental activities</i> in the statement of net assets (Exhibit A) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	104,292
Compensated absences payable are not financial resources, and therefore, are not reported in the fund.	(6,451)
	<hr/>
Net assets of governmental fund	\$ 153,690
	<hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Year Ended June 30, 2003**

	SPECIAL REVENUE FUND
	General (SLE)
<b>REVENUES</b>	
Property taxes	\$ 10,898
Special assessments	154,934
Service fees	15,771
Investment earnings	1,569
Other	500
	<hr/>
Total Revenue	183,672
	<hr/>
<b>EXPENDITURES</b>	
Salaries and benefits	116,814
Services and supplies	52,586
Capital outlay:	
Vehicles	26,092
	<hr/>
Total Expenditures	195,492
	<hr/>
Net Change in Fund Balances	(11,820)
	<hr/>
Fund Balances - beginning	67,669
	<hr/>
Fund Balances - ending	\$ 55,849
	<hr/>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Fund to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Fund \$ (11,820)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

9,681

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental fund.

Increase in compensated absences payable

(1,221)

Change in net assets of governmental activities

\$ (3,360)

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting entity**

The County Service Area (CSA) No. 70 Zone TV-5 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code to provide eight channels of UHF translator service broadcast from Pinto Mountain, and three channels of UHF television translator service broadcast from Copper Mountain to the 100 square mile area encompassing Copper Mesa, Desert Heights, Flamingo Heights, Landers, and Yucca Mesa.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone TV-5 of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**County of San Bernardino Special Districts  
County Service Area No. 70 Zone TV-5 - Mesa Translator  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Employee compensated absences**

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 5,230	\$ 6,126	\$ 4,905	\$ 6,451

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Reconciliation of government-wide and fund financial statements**

**Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$9,681 difference are as follows:

Capital outlay	\$ 26,092
Depreciation expense	<u>(16,411)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 9,681</u>

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.



**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 11,885	\$ -	\$ -	\$ 11,885
Total capital assets, not being depreciated	11,885	-	-	11,885
Capital assets, being depreciated:				
Land improvements	100,000	-	-	100,000
Vehicles	13,000	26,092	(5,000)	34,092
Equipment	109,641	-	(6,088)	103,553
Total capital assets, being depreciated	222,641	26,092	(11,088)	237,645
Less accumulated depreciation for:				
Land improvements	(32,500)	(5,000)	-	(37,500)
Vehicles	(13,000)	(1,812)	5,000	(9,812)
Equipment	(94,415)	(9,599)	6,088	(97,926)
Total accumulated depreciation	(139,915)	(16,411)	11,088	(145,238)
Total Capital assets, being depreciated, net	82,726	9,681	-	92,407
Governmental activities capital assets, net	\$ 94,611	\$ 9,681	\$ -	\$ 104,292

**NOTE 4: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 4: RETIREMENT PLAN (continued)**

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. The CSA paid \$9,384 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<b>Year Ended June 30,</b>	<b>Annual Pension Cost (in thousands)</b>	<b>Percentage Contributed</b>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 5: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 6: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$12,090 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

**County of San Bernardino Special Districts  
County Service Area No. 70 Zone TV-5 - Mesa Translator  
Notes to Financial Statements  
June 30, 2003**

**NOTE 6: RISK MANAGEMENT (continued)**

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability (in thousands)</u>	<u>Current Year Claims and Changes in Estimates (in thousands)</u>	<u>Claims Payments (in thousands)</u>	<u>End of Fiscal Year Liability (in thousands)</u>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 7: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 Zone TV-5 - Mesa Translator**  
**Budgetary Comparison Schedule - Special Revenue Fund (General)**  
**For the Year Ended June 30, 2003**

	Special Revenue Fund			
	General (SLE)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 10,898	\$ 10,898
Special assessments	150,000	150,000	154,934	4,934
Service fees	13,200	13,200	15,771	2,571
Investment earnings	423	423	1,569	1,146
Other	-	-	500	500
<b>Total Revenues</b>	<b>163,623</b>	<b>163,623</b>	<b>183,672</b>	<b>20,049</b>
<b>EXPENDITURES</b>				
Salaries and benefits	123,420	123,420	116,814	6,606
Services and supplies	52,871	52,871	52,586	285
Capital outlay:				
Equipment	15,000	15,000	-	15,000
Vehicles	40,000	40,000	26,092	13,908
<b>Total Expenditures</b>	<b>231,291</b>	<b>231,291</b>	<b>195,492</b>	<b>35,799</b>
<b>Net Change in Fund Balances</b>	<b>\$ (67,668)</b>	<b>\$ (67,668)</b>	<b>(11,820)</b>	<b>\$ 55,848</b>
<b>Fund Balances - beginning</b>			<b>67,669</b>	
<b>Fund Balances - ending</b>			<b>\$ 55,849</b>	

**COUNTY OF SAN BERNARDINO  
SPECIAL DISTRICTS  
COUNTY SERVICE AREA No. 70  
ZONE W - HINKLEY**

**REPORT ON AUDIT**

**JUNE 30, 2003**

**County of San Bernardino Special Districts  
County Service Area No. 70  
Zone W - Hinkley  
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Board of Supervisors  
County of San Bernardino  
County of San Bernardino Special  
District County Service Area  
No. 70 - Zone W - Hinkley

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone W - Hinkley (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2003, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 70 - Zone W - Hinkley, as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on pages 19 to 20 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### MEMBERS

AMERICAN INSTITUTE OF  
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The County of San Bernardino Special District County Service Area No. 70 - Zone W - Hinkley has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

September 26, 2003

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**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone W - Hinkley  
Statement of Net Assets  
June 30, 2003**

**ASSETS**

Cash and cash equivalents	\$ 25,506
Interest receivable	149
Taxes receivable	12,782
Capital assets, net of depreciation	<u>354,499</u>
Total Assets	<u>392,936</u>

**LIABILITIES**

Salaries and benefits payable	4,737
Due to other governments	169
Interest payable	5,736
Long-term liabilities:	
Loan payable	<u>40,000</u>
Total Liabilities	<u>50,642</u>

**NET ASSETS**

Invested in capital assets, net of related debt	314,499
Unrestricted	<u>27,795</u>
Total Net Assets	<u>\$ 342,294</u>

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone W - Hinkley**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

**EXPENSES**

Salaries and benefits	\$ 37,893
Services and supplies	64,943
Depreciation	23,172
Interest	1,137
Total Program Expenses	<u>127,145</u>

**PROGRAM REVENUES**

Net Program Expense	<u>-</u>
	<u>(127,145)</u>

**GENERAL REVENUES**

Property taxes	100,733
Other taxes	4,647
State assistance	3,693
Intergovernmental	18,366
Investment earnings	837
Other	20
Total General Revenues	<u>128,296</u>

Change in Net Assets	1,151
----------------------	-------

Net Assets - beginning	<u>341,143</u>
------------------------	----------------

Net Assets - ending	<u><u>\$ 342,294</u></u>
---------------------	--------------------------

The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone W - Hinkley  
Balance Sheet  
Governmental Funds  
June 30, 2003**

	<u>SPECIAL REVENUE FUNDS</u>		<u>CAPITAL PROJECTS FUND</u>
	<u>Fire (SLS)</u>	<u>Park (SLT)</u>	<u>Fire Station (CKB)</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 837	\$ 23,666	\$ 7
Interest receivable	-	143	-
Taxes receivable	5,438	-	-
<b>Total Assets</b>	<u>\$ 6,275</u>	<u>\$ 23,809</u>	<u>\$ 7</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Salaries and benefits payable	\$ 4,737	\$ -	\$ -
Due to other governments	50	119	-
<b>Total Liabilities</b>	<u>4,787</u>	<u>119</u>	<u>-</u>
Fund Balances:			
Unreserved:			
Undesignated (deficit)	1,488	23,690	7
<b>Total Fund Balances</b>	<u>1,488</u>	<u>23,690</u>	<u>7</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 6,275</u>	<u>\$ 23,809</u>	<u>\$ 7</u>

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.  
Property tax revenue

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets.

Interest payable  
Loan payable

Net assets of governmental funds

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 996	\$ 25,506
6	149
-	5,438
<u>\$ 1,002</u>	<u>\$ 31,093</u>
\$ -	\$ 4,737
-	169
-	4,906
1,002	26,187
<u>1,002</u>	<u>26,187</u>
<u>\$ 1,002</u>	
	354,499
	7,344
	(5,736)
	<u>(40,000)</u>
	<u>\$ 342,294</u>

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone W - Hinkley  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2003**

	<u>SPECIAL REVENUE FUNDS</u>		<u>CAPITAL PROJECTS FUND</u>
	<u>Fire (SLS)</u>	<u>Park (SLT)</u>	<u>Fire Station (CKB)</u>
<b>REVENUES</b>			
Property taxes	\$ 91,108	\$ 10,000	\$ -
Other taxes	4,647	-	-
State assistance	3,693	-	-
Investment earnings	-	786	7
Other	20	-	-
	<u>99,468</u>	<u>10,786</u>	<u>7</u>
<b>Total Revenue</b>			
	<u>99,468</u>	<u>10,786</u>	<u>7</u>
<b>EXPENDITURES</b>			
Salaries and benefits	35,199	2,694	-
Services and supplies	56,146	8,797	-
Capital outlay:			
Structures and improvements	-	-	23,962
	<u>91,345</u>	<u>11,491</u>	<u>23,962</u>
<b>Total Expenditures</b>			
	<u>91,345</u>	<u>11,491</u>	<u>23,962</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>8,123</u>	<u>(705)</u>	<u>(23,955)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	-	-	23,962
Transfer out	(5,596)	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>(5,596)</u>	<u>-</u>	<u>23,962</u>
<b>Net Change in Fund Balances</b>	<u>2,527</u>	<u>(705)</u>	<u>7</u>
<b>Fund Balances - beginning</b>	<u>(1,039)</u>	<u>24,395</u>	<u>-</u>
<b>Fund Balances - ending</b>	<u>\$ 1,488</u>	<u>\$ 23,690</u>	<u>\$ 7</u>

The accompanying notes are an integral part of these financial statements.

## Exhibit "D"

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 101,108
-	4,647
-	3,693
44	837
-	20
<u>44</u>	<u>110,305</u>
-	37,893
-	64,943
-	23,962
<u>-</u>	<u>126,798</u>
<u>44</u>	<u>(16,493)</u>
-	23,962
-	(5,596)
-	18,366
<u>44</u>	<u>1,873</u>
<u>958</u>	<u>24,314</u>
<u>\$ 1,002</u>	<u>\$ 26,187</u>



**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone W - Hinkley**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities**  
**For the Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds	\$	1,873
--	----	-------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

790

Some revenues will not be collected for several months after year-end, they are not considered "available" revenue in the governmental funds.

Property tax revenue - current year

7,344

Property tax revenue - prior year

(7,719)

Expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in interest payable

(1,137)

Change in net assets of governmental activities	\$	<u>1,151</u>
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone W - Hinkley  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area (CSA) No. 70 Zone W was established by an act of the Board of Supervisors of the County of San Bernardino (the County) to provide fire protection and park services to the community of Hinkley under the administrative direction of the County Fire Department.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 70 Zone W of the County of San Bernardino (County) and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2003.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone W - Hinkley**  
**Notes to Financial Statements**  
**June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "Fire" provides fire protection services for the community of Hinkley under the administrative direction of the County Fire Department.

The *special revenue fund* labeled "Park" provides park services to the community of Hinkley.

The *capital projects funds* labeled "Fire Station" is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone W - Hinkley  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Deposits and investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

**Inventories and prepaid items**

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone W - Hinkley  
Notes to Financial Statements  
June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

**Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Reconciliation of government-wide and fund financial statements**

**Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone W - Hinkley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(790) difference are as follows:

Capital outlay	\$ 23,962
Depreciation expense	<u>(23,172)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 790</u>

**Stewardship, compliance and accountability**

**A. Budgetary information**

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**B. Encumbrances**

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

**NOTE 2: CASH AND DEPOSITS**

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone W - Hinkley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for year ended June 30, 2003 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,500	\$ -	\$ -	\$ 1,500
Construction in progress	12,970	23,962	-	36,932
Total capital assets, not being depreciated	14,470	23,962	-	38,432
Capital assets, being depreciated:				
Land improvements	22,152	-	-	22,152
Structures and improvements	315,859	-	-	315,859
Vehicles	267,268	-	-	267,268
Equipment	23,373	-	-	23,373
Total capital assets, being depreciated	628,652	-	-	628,652
Less accumulated depreciation for:				
Land improvements	(3,610)	(492)	-	(4,102)
Structures and improvements	(42,699)	(7,019)	-	(49,718)
Vehicles	(233,249)	(14,010)	-	(247,259)
Equipment	(9,855)	(1,651)	-	(11,506)
Total accumulated depreciation	(289,413)	(23,172)	-	(312,585)
Total Capital assets, being depreciated, net	339,239	(23,172)	-	316,067
Governmental activities capital assets, net	<u>\$ 353,709</u>	<u>\$ 790</u>	<u>\$ -</u>	<u>\$ 354,499</u>

**NOTE 4: LOAN PAYABLE**

The CSA received loan proceeds from the County's Revolving Fund established under Government Code Section 25210.9c. All loans to date have five-year terms as established by the Board of Supervisors. The loan balance reported on the *Statement of Net Assets* at June 30, 2003 is \$40,000, due in 2005.

Future debt service payments for the County's revolving loan is not disclosed because there are no fixed payment dates.

**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone W - Hinkley  
Notes to Financial Statements  
June 30, 2003**

**NOTE 5: RETIREMENT PLAN**

***Plan Description***

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3<sup>rd</sup> floor, San Bernardino, California 92415-0014.

***Fiduciary Responsibility***

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2003.

***Funding Policy***

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County's annual pension cost of \$68,361,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.



**County of San Bernardino Special Districts  
County Service Area No. 70 - Zone W - Hinkley  
Notes to Financial Statements  
June 30, 2003**

**NOTE 5: RETIREMENT PLAN (continued)**

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (in thousands)</u>	<u>Percentage Contributed</u>
2001	58,572	100%
2002	69,245	100%
2003	68,361	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2003 is \$430,898,000.

**NOTE 6: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

**NOTE 7: RISK MANAGEMENT**

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). Insurance premiums totaled \$5,678 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone W - Hinkley**  
**Notes to Financial Statements**  
**June 30, 2003**

**NOTE 7: RISK MANAGEMENT (continued)**

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>End of Fiscal Year Liability (in thousands)</b>
2002 - 2003	\$ 95,288	\$ 23,647	\$ (32,171)	\$ 86,764
2001 - 2002	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

**NOTE 8: CONTINGENCIES**

As of June 30, 2003, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

**NOTE 9: PROPOSITION 111 APPROPRIATION LIMITS**

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone W - Hinkley**  
**Budgetary Comparison Schedule - Special Revenue Funds (Fire, Park)**  
**For the Year Ended June 30, 2003**

	Special Revenue Funds			
	Fire (SLS)			Variance with Final Budget Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
<b>REVENUES</b>				
Property taxes	\$ 93,592	\$ 93,592	\$ 91,108	\$ (2,484)
Other taxes	-	-	4,647	4,647
State assistance	-	-	3,693	3,693
Investment earnings	500	500	-	(500)
Other	-	1,264	20	(1,244)
Total Revenues	94,092	95,356	99,468	4,112
<b>EXPENDITURES</b>				
Salaries and benefits	31,620	34,285	35,199	(914)
Services and supplies	56,876	54,211	56,146	(1,935)
Reserves and contingencies	-	-	-	-
Total Expenditures	88,496	88,496	91,345	(2,849)
Excess of Revenues Over (Under) Expenditures	5,596	6,860	8,123	1,263
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	-	-	-	-
Transfer out	(5,596)	(5,596)	(5,596)	-
Total Other Financing Sources (Uses)	(5,596)	(5,596)	(5,596)	-
Net Change in Fund Balances	\$ -	\$ 1,264	2,527	\$ 1,263
Fund Balances - beginning			(1,039)	
Fund Balances - ending			\$ 1,488	

Special Revenue Funds			
Park (SLT)			
Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
\$ 10,000	\$ 10,000	\$ 10,000	\$ -
-	-	-	-
-	-	-	-
800	800	786	(14)
-	-	-	-
10,800	10,800	10,786	(14)
2,694	2,694	2,694	-
14,547	14,547	8,797	5,750
17,954	17,954	-	17,954
35,195	35,195	11,491	23,704
(24,395)	(24,395)	(705)	23,690
-	-	-	-
-	-	-	-
-	-	-	-
\$ (24,395)	\$ (24,395)	(705)	\$ 23,690
		24,395	
		\$ 23,690	

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone W - Hinkley**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2003**

	CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds (see Exhibit C)
	Roof (CKF)	Defibrillator (CND)	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 994	\$ 2	\$ 996
Interest receivables	6	-	6
<b>Total Assets</b>	<u>\$ 1,000</u>	<u>\$ 2</u>	<u>\$ 1,002</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities	\$ -	\$ -	\$ -
Fund Balances			
Unreserved			
Undesignated	1,000	2	1,002
<b>Total Fund Balances</b>	<u>1,000</u>	<u>2</u>	<u>1,002</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,000</u>	<u>\$ 2</u>	<u>\$ 1,002</u>

**Required Supplementary Information**  
**County of San Bernardino Special Districts**  
**County Service Area No. 70 - Zone W - Hinkley**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2003**

	<b>CAPITAL PROJECTS FUNDS</b>		<b>Total Nonmajor Governmental Funds (see Exhibit D)</b>
	<b>Roof (CKF)</b>	<b>Defibrillator (CND)</b>	
<b>REVENUES</b>			
Investment earnings	\$ 44	\$ -	\$ 44
Total Revenues	44	-	44
<b>EXPENDITURES</b>	-	-	-
Net Change in Fund Balances	44	-	44
Fund balances - beginning	956	2	958
Fund balances - ending	\$ 1,000	\$ 2	\$ 1,002

